

Perkins Loan Billing, Collection, and Default



CHAPTER 5

When a Perkins Loan enters repayment, your school must follow the due diligence requirements of Subpart C of the Perkins regulation (34 CFR 674.41-50). You must afford a borrower maximum opportunity to repay a Federal Perkins Loan. Specific steps the school must take include (but are not limited to) billing the borrower, sending overdue notices, and conducting address searches if the borrower cannot be located. If billing procedures fail, a school must take more aggressive collection steps such as hiring a collection firm and/or litigating. Default in the Federal Perkins Loan Program is defined as “the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement.”

COMMUNICATION WITH BORROWERS

While billing and collection activities involve many steps, there are general requirements that your school must adhere to at all times. You must inform the borrower of all program changes that affect his or her rights and responsibilities. Your school must respond promptly to the borrower’s inquiries. If a borrower disputes a loan and you cannot resolve the dispute, you must explain the services provided by the Department’s Federal Student Aid (FSA) Ombudsman Group.

Keeping current information on a borrower makes it easier for the school to know when repayment must begin and where to send billing notices. The various offices at the school—the admissions, business, alumni, placement, financial aid, and registrar’s offices, and others, as necessary—must provide any available information about the borrower that is relevant to loan repayment, including

- ◆ the borrower’s current enrollment status;
- ◆ the borrower’s expected graduation or termination date;
- ◆ the date the borrower officially withdraws, drops below half-time enrollment, or is expelled; and
- ◆ the borrower’s current name, address, telephone number, Social Security number, and driver’s license number (if any).

Communication requirements

General due diligence

34 CFR 674.41(a)

Coordination of information

34 CFR 674.41(b)

Contact with borrower

34 CFR 674.42

Disclosure of repayment information

34 CFR 674.42(a)

Exit counseling

34 CFR 674.42(b)

Contact during initial and post-deferment grace periods

34 CFR 674.42(c)

For information about maintaining billing and collection records, see *Chapter 1*.

TIP Perkins/NDSL/Defense Loans

The term Perkins Loans, includes loans made under the name National Direct Student Loans (NDSL Loans), and National Defense Student Loans (Defense Loans).

REQUIREMENTS AT END OF ENROLLMENT

Exit interviews

Exit interviews

34 CFR 674.42(b)

Exit Interviews for Students Enrolled in a Correspondence or Study-Abroad Program

In the case of students enrolled in a correspondence program or a study-abroad program that your school approves for credit, you may provide written counseling materials by mail within 30 days after the borrower completes the program.

Contact with the borrower becomes even more important as the borrower's last day of attendance approaches. Your school should conduct exit interviews with borrowers either in person, by audiovisual presentation, or by interactive electronic means. (If you conduct exit interviews through interactive electronic means, you should take reasonable steps to ensure that each student borrower receives the materials and participates in and completes the exit interview.)

Schools should conduct this interview shortly before the student graduates or drops below half-time enrollment (if known in advance). If individual interviews are not possible, group interviews are acceptable. Your school may employ third-party servicers to provide Perkins Loan borrowers with exit interviews. In the case of correspondence study, distance education, and students in the study-abroad portion of a program, you may provide written interview materials by mail within 30 days after the borrower completes the program.

Perkins NSLDS reporting

34 CFR 674.16

You must report enrollment and loan status information to www.nsldsfa.gov by the deadline date established in the Federal Register.

For NSLDS assistance call 1-800-999-8219 or send an email to NSLDS@ed.gov.

During the exit interview, the financial aid or business office professional must review and update all of the repayment terms and information addressed during any initial loan counseling session. (See *Chapter 3*.)



The exit interview must also discuss

- ♦ debt-management strategies that would facilitate repayment,
- ♦ the availability of FSA loan information on the National Student Loan Database System (NSLDS at www.nslds.ed.gov), and
- ♦ how to contact the FSA Ombudsman Group and an explanation of the services this office provides.

As part of the exit information, you must collect the name and address of the borrower's expected employer.

The financial aid or business office professional must emphasize the seriousness and importance of the repayment obligation the borrower is assuming, describing the likely consequences of default, including adverse credit reports, litigation, and referral to a collection agency. The counselor must further emphasize that the borrower is obligated to repay the full amount of the loan even if the borrower has not completed the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with the school's educational or other services.



If the borrower withdraws from school without the school's prior knowledge or fails to complete an exit counseling session, the school must provide exit counseling through either interactive electronic means or by mailing counseling material to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from school or failed to complete exit counseling.

FSA Ombudsman

The Ombudsman Group is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman.

U.S. Dept. of Education
FSA Ombudsman Group
PO Box 1843
Monticello, KY 42633

Phone 202-377-3800
Toll-free: 1-877-557-2575
Fax: 202-275-0549

fsahelp.ed.gov

Disclosure of repayment information



Either shortly before the borrower ceases at least half-time study or during the exit interview, schools must disclose critical repayment information to the borrower in a written statement. Most of the repayment terms that the school must disclose to the borrower already appear in the promissory note. **The school must also give the borrower the following:**

- ◆ contact information for requesting a copy of the signed promissory note;
- ◆ the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- ◆ the name and address of the party to which payments should be sent;
- ◆ the estimated balance owed by the borrower on the date on which the repayment period is scheduled to begin;
- ◆ the repayment schedule for all loans covered by the disclosure, including the date the first installment payment is due, the rate of interest, and the number, amount, and frequency of required payments; and
- ◆ the total interest charges that the borrower will pay on the loan pursuant to the projected repayment schedule.

Disclosure of repayment information

34 CFR 674.42(a)

If your school exercises the minimum monthly payment option, you must inform the borrower that if he or she wants your school to coordinate payments with another school, he or she must request such coordination.

If a borrower enters the repayment period without the school's knowledge, the school must provide the required disclosures to the borrower in writing immediately upon discovering that the borrower has entered the repayment period.

Contact during grace periods

A school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin or resume.



Your school must contact the borrower three times during the nine-month initial grace period. The school must also contact the borrower twice during any six-month post-deferment grace period. The chart on the next page shows the length of initial and post-deferment grace periods for Perkins Loans.

Grace period contact

34 CFR 674.42(c)

When Payments Are Made

Any funds collected as a result of billing the borrower are to be

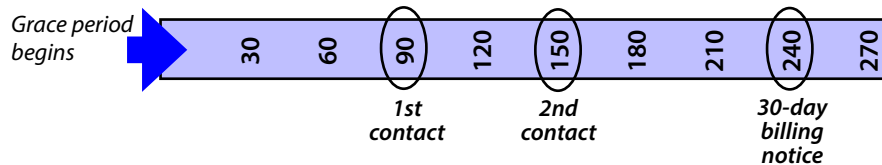
- deposited in an account insured by the federal government, or
- secured by collateral of reasonable equivalent value, or
- invested in low-risk income-producing securities.

Your school must exercise the level of care required of a fiduciary with regard to these deposits and investments.

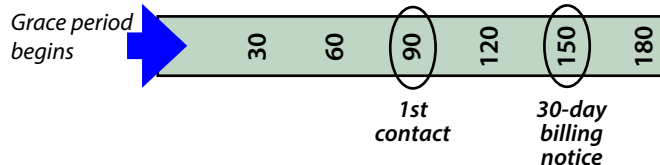
- ♦ The *first contact* must be *90 days* after any grace period (initial or post-deferment) begins. The school must remind the borrower that he or she is responsible for repaying the loan. The school must also inform the borrower of the amount of principal and interest, as projected for the life of the loan, and the due date and amount of the first (or next) payment.
- ♦ The *second contact* must be *150 days* after any grace period begins, when the school must again remind the borrower of the due date and amount of the first (or next) payment. For six-month grace periods, the second contact should coincide with the first billing notice. These two notices may be combined.
- ♦ For nine-month grace periods, the school must make a *third contact* *240 days* after the grace period begins to remind the borrower of the date and amount of the first payment. This contact should coincide with the first billing notice. Again, the school may combine the two notices.

Contact with Borrower During Grace Period

9-month grace period



6-month grace period



Applicable grace periods	Perkins	NDSL on/after 10/1/80	NDSL before 10/1/80
initial grace period	9 months	6 months	9 months
post-deferment period	6 months	6 months	6 months

BILLING PROCEDURES AND OVERDUE PAYMENTS

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

The school may choose a coupon payment system as its method of billing. If so, the school must send the coupons to the borrower at least 30 days before the first payment is due.

If the school does not use a coupon system, it must, at least *30 days* before the first payment is due, send the borrower a statement of account and a written notice giving the name and address of the party to which payments should be sent. The statement of account includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment. For subsequent payments, the school must send the borrower a statement of account at least *15 days* before the due date of the payment.

If the borrower chooses to make payments through electronic funds transfer, the school doesn't have to send the borrower a statement of account before each payment. However, the school must send the borrower an annual statement of account that lists the required amounts and dates of repayment, as well as any information tracking the status of any late charges.

Billing procedures

34 CFR 674.43

Procedures required when payments are overdue

34 CFR 674.43(b), (c), & (d)

Optional penalty or late charge for periods of enrollment beginning before January 1, 1986

34 CFR 674.31(b)(5)(i) & (ii)

34 CFR 674 Appendix E

Schools are authorized but not required to assess a penalty or late charge for an overdue payment on a loan made for a period of enrollment that began before January 1, 1986. The maximum penalty charge that may be assessed on a loan payable monthly is \$1 for the first month and \$2 for each additional month a payment is overdue; the maximum penalty for a loan payable bimonthly is \$3; the maximum penalty for loans payable quarterly is \$6. Penalty or late charges on these loans may be assessed only during the billing process.

Notices of overdue payments

If a payment is overdue and you have not received a request for forbearance, deferment, or cancellation, you must send the borrower



- ♦ the *first* overdue notice 15 days after the payment due date;
- ♦ the *second* overdue notice 30 days after the first overdue notice;
- ♦ the *final demand letter* 15 days after the second overdue notice.

In this notice, you must tell the borrower the amount of any late charge your school has assessed (see discussion under *Late charges* later in this chapter), and whether your school has

- ♦ added the charge amount to the principal amount as of the first day on which the payment was due; or
- ♦ demanded payment of the charge no later than the first day on which the next installment is due.

You may skip the first two letters and send just the final demand letter within *15 days* after a payment is overdue if the borrower's repayment history has been unsatisfactory or if you can reasonably conclude the borrower does not intend to repay the loan or to seek forbearance, deferment, or cancellation. A borrower is considered to have an unsatisfactory repayment history if he or she has failed to make payments when due; has failed to request deferment, forbearance, or cancellation on time; or has received a final demand letter.

If mail sent to a borrower is returned undelivered, or if the borrower fails to respond, you must take steps to locate the borrower. These steps must include



- ♦ reviews of borrower records in all appropriate school offices;
- ♦ reviews of telephone directories or inquiries to directory assistance at the borrower's last known address, and attempting to reach the borrower by phone; and
- ♦ attempting to locate and contact the borrower by electronic means.

Contacting the borrower by telephone



If the borrower does not respond to the final demand letter within 30 days, you must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, one call may avoid the more costly procedures of collection.

You should make at least two attempts to reach the borrower on different days and at different times. If the borrower has an unlisted telephone number, you must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If you are still unsuccessful, you should document the contact attempts in your files.

Address searches



The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail)

- ♦ review the records of all appropriate school offices, and
- ♦ review printed or web-based telephone directories or check with information operators in the area of the borrower's last known address.

If these methods are unsuccessful, you must intensify efforts to locate the borrower, using either school personnel or a commercial skip-tracing firm. If you use school personnel, you must employ and document efforts comparable to commercial skip-tracing firms. If you still can't locate the borrower after taking these steps, you must continue to make reasonable attempts at least twice a year until the account is assigned to the Department or the account is written off.

Late charges

The assessment of late charges on an overdue Perkins Loan borrower is now optional. The final demand letter must inform the borrower that unless the school receives a payment or a request for forbearance, deferment, or cancellation *within 30 days* of the date of the letter, the school will refer the account for collection or litigation and will report the default to a credit bureau as required by law.

A school that adopts a policy of assessing late charges on an overdue Perkins Loan must impose them on all borrowers with overdue payments. The charge is based either on the actual costs the school incurs in taking steps to obtain the overdue amount or on average costs incurred in similar attempts with other borrowers. The charge may not exceed 20% of the installment payment most recently due.

Telephone contact required

34 CFR 674.43(f)

Contacting the endorser—loans Before July 23, 1992

For loans made prior to July 23, 1992, the school must also try to collect the amount owed from any endorser of the loan. It may help to send the endorser a copy of the final demand letter that was sent to the borrower and copies of all subsequent notices, including dunning letters. For loans made on or after July 23, 1992, an endorser is no longer required.

Address search

34 CFR 674.44

IRS Skip-Tracing

Previous Handbooks noted that schools could use IRS Skip-Tracing services to locate Perkins borrowers. (See Dear Partner Letter CB-02-16, November 2002.) However, IRS Skip-Tracing is no longer available to schools that participate in the Perkins Loan Program. See the Electronic Announcement posted on July 10, 2009.

Late charges

34 CFR 674.43(1)(b)(5)

If your school assesses a late charge, it must also impose a late charge if a borrower's payment is overdue and the borrower has not filed a complete request for forbearance, deferment, or cancellation on time. (To be complete, the request must contain enough information for you to confirm the borrower's eligibility.) If a school opts to charge late fees, the school may charge late fees only during the billing process; a school may not charge late fees once the school begins collections procedures.

You may add the penalty or late charge to the principal amount of the loan as of the first day the payment was due. Alternatively, you may include the charge with the next payment that is scheduled after the date you notify the borrower that the charge must be paid in full by the next payment due date. You must inform the borrower of the late charge, preferably in the first overdue payment notice.

For a borrower who repays the full amount of past-due payments, the school may waive any late charges that were imposed.

Loan acceleration

Loan acceleration

34 CFR 674.31(b)(8)

34 CFR 674.43(e)

You may *accelerate* a loan if the borrower misses a payment or does not file for deferment, forbearance, or cancellation on time. Acceleration means immediately making payable the entire outstanding balance, including interest and any applicable late charges or collection fees.

Because this marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower a written acceleration notice at least 30 days in advance. The notice may be included in the final demand letter or in some other written notice sent to the borrower.

If the loan is accelerated, you must send the borrower another notice to inform him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. However, if you plan to assign the loan to the Department for collection, you must first accelerate the loan. Once a loan has been accelerated, the borrower loses all rights to deferment and cancellation benefits for qualifying service performed *after* the date of acceleration.

DEFAULT REDUCTION ASSISTANCE PROGRAM

The Default Reduction Assistance Program (DRAP) assists schools in bringing defaulted Federal Perkins Loan (Perkins Loan) borrowers back into repayment before their accounts are sent to collection agencies. A letter is sent from the Department of Education (the Department) on official letterhead to defaulted Perkins Loan borrowers. It explains the serious consequences of default including the inability to obtain other federally supported financial assistance, withholding of federal and state income tax refunds, salary garnishment, and damage to credit history. It also encourages borrowers to contact the school to initiate repayment arrangements.

Perkins Loan Default Reduction Assistance Program (DRAP)
EA November 15, 2013

Through DRAP, a school or its third party servicer can

- ♦ submit borrower information for letters to be printed and mailed;
- ♦ maintain borrower information;
- ♦ edit DRAP contact information without the Department's intervention;
- ♦ run a report that assists in monitoring the letters mailed to borrowers;
- ♦ run a report that assists in tracking the total number of letter requests submitted; and
- ♦ determine if a letter was returned to the Department as "undeliverable" and if an address has been determined to be invalid.

Participation in the DRAP process is voluntary. There is no cost to the school.

Timing

The DRAP process is most effective when used during the 30-day period when the school is waiting for the defaulted borrower to respond to the final demand letter. Do not request default reduction assistance once the account has been referred to a collection agency.

Accessing and initiating the DRAP process

All related functions of the DRAP process are accessed via the eCampus-Based (eCB) website. To access the DRAP section of the eCB Website, log in at cbfisap.ed.gov and then select the "DRAP" link on the top navigation bar. From that point, follow the instructions for performing the identified functions.

To initiate the process, a school or its third party servicer logs in to the eCB Website and enters information about borrowers who have defaulted on their Perkins Loans. The information may be entered for each borrower or it may be uploaded from a file. Following submission of this information, a letter will be printed on the Department's letterhead and mailed by the Department to each borrower. The letter encourages the borrower to contact the school to initiate repayment arrangements.

If a third-party servicer that submits DRAP data on behalf of a school does not also provide Fiscal Operations Report and Application to Participate (FISAP) services for the school, the servicer must be granted read-only access to the FISAP by the school's Destination Point Administrator (DPA).

NEW

All eCB access now requires Two-Factor Authentication (TFA) using an FSA token. (See the Electronic Announcement dated June 26, 2014, Subject: Implementation of Electronic Signature and Two-Factor Authentication for eCampus-Based Website in August 2014).

Third-party servicer staff must obtain the FSA token through their company's DPA, but must request DRAP-only access for each school being serviced. Each school's DPA will authorize or deny DRAP-only access.

Address Information and Undeliverable Mail

The DRAP system will only accept physical addresses for borrowers to be contacted. P.O. Boxes will not be accepted.



The Department will send only one DRAP letter to each address provided by a school. "Undeliverable" letters are returned to the Department where they are logged into the eCB DRAP module along with the reason they were returned. Schools will need to log in periodically to review and print reports of undeliverable letters. Schools are encouraged to provide updated addresses. When an address is updated, a DRAP letter is sent to the new address.

Contact Information

For additional information about DRAP, contact the Campus-Based Call Center at 877-801-7168. Customer service representatives are available Monday through Friday from 8:00 a.m. to 8:00 p.m. (ET).

You may also email cbfob@ed.gov.

COLLECTION PROCEDURES



When a borrower does not respond to routine billing methods, your school will need to institute more intensive collection procedures. Before beginning collection procedures, you must attempt all of the required contact methods described previously.

If the borrower is unresponsive and normal billing procedures have been exhausted, you must make a first effort to collect using either your own personnel or hiring a collection firm. You must also report the borrower to at least one nationwide credit bureau. If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, or cancellation), you have two options—either to litigate or to make a second effort to collect.

A second effort to collect requires one of the following procedures:

1. If you first attempted to collect by using your own personnel, you must refer the account to a collection firm unless state law prohibits doing so.
2. If you first used a collection firm, you must attempt to collect by using your own personnel or by using a different collection firm, or the school must submit the account to the Department for assignment. If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the firm must return the account to the school.

If you are unsuccessful in your effort to place the loan in repayment after a second collection effort, you must continue to make yearly attempts to collect from the borrower until

- ♦ the loan is recovered through litigation;
- ♦ the account is assigned to the Department; or
- ♦ the loan is written off.

Collection procedures

34 CFR 674.45

Credit bureau reporting

34 CFR 674.45(a)(1) & (b)

First effort to collect

34 CFR 674.45(a)(2)

Litigation or second effort

34 CFR 674.45(c)

Annual efforts to collect

34 CFR 674.45(d)

Requirements after one year

34 CFR 674.45(c)

Costs assessed to borrower

34 CFR 674.45(e)

Treatment of collected funds

34 CFR 674.43(g)

34 CFR 674.45(f)

Preemption of state law

34 CFR 674.45(g)

Ombudsman information

34 CFR 674.45(h)

Use of contractors for billing and collection

34 CFR 674.48

School is ultimately responsible

34 CFR 674.48(a) & (b)

School responsibilities when using contractors

34 CFR 674.48(c) & (d)

Limitations on use of contractors

34 CFR 674.48(e)

School requirements of contractors

34 CFR 674.48(f)

Credit bureau reporting

34 CFR 674.45(a)(1) & (b)

Credit bureau reporting

A school must report an account to credit bureaus as being in default when a borrower fails to respond to the final demand letter or the following telephone contact. You must report the default to any one national credit bureau or to an affiliated credit bureau that transmits credit information to one of the three national credit bureaus with which the Department has an agreement (see box below).



You must report any subsequent changes in the status of the borrower's account to the same national credit bureau, using the procedures required by that credit bureau. You must respond within one month to any inquiry received from any credit bureau about reported loan information. Finally, you must notify all credit bureaus to which you reported the default when a borrower makes consecutive, on-time monthly payments.

Reporting good credit history (as well as reporting defaulted loans) is essential to ensure that current and future creditors have complete information regarding the credit obligations of the borrower.

Under the Fair Credit Reporting Act, a borrower may appeal the accuracy and validity of the information reported to the credit bureau and reflected in the credit report. You should be prepared to handle the appeal and make necessary corrections to the report as required by the provisions of the act.

National Credit Bureaus

The Department has entered into an agreement with the three national credit bureaus listed below:

Trans Union Corporation	1-800-888-4213
Experian (formerly TRW)	1-888-397-3742
Equifax	1-800-685-1111

National credit bureaus charge fees for their services. These fees differ from credit bureau to credit bureau. Credit bureaus affiliated with the above credit bureaus may have different fees from those of the national credit bureaus. The Department does not keep a list of these affiliated bureaus and their fees.

The Privacy Act authorizes disclosure of a borrower's account information to creditors without the borrower's consent if the disclosure helps enforce the terms and conditions of the loan. You may also make such disclosures about loans that haven't defaulted and/or are being disbursed.

Ceasing collection

A school may cease collection activity on defaulted accounts with balances of less than \$200 (including outstanding principal, accrued interest, collection costs, and late charges) if the school carried out the required due diligence and if the account has had no activity for four years. Although interest will continue to accrue and may put the account over \$200, you will not have to resume collection activity if you document that you ceased collection activity when the account was under \$200. The borrower will remain responsible for repaying the account, including accrued interest. The account will still be included in the school's cohort default rate, if applicable, and the borrower will still be in default and ineligible for FSA funds.

ALTERNATIVES TO LITIGATION



To avoid litigation, a school may offer to waive collection costs as incentive for repayment. You may waive *all* collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding, including principal and interest; a written repayment agreement is not required. You may also waive a *portion* of the collection costs on a loan if the borrower agrees to pay a corresponding portion of the loan within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays half of the outstanding balance on a loan within 30 days of the agreement, the school may waive half of the collection costs incurred through the date of that payment. The amount of waived collection costs may be charged to the Perkins Loan fund.

You may compromise the repayment of a defaulted loan if you have fully complied with all due diligence requirements and the borrower pays, in a single lump-sum payment, at least 90% of the outstanding principal balance, plus all interest and collection fees. The federal share of the compromise repayment must bear the same relation to the school's share as the Federal Capital Contribution (FCC) bears to the Institutional Capital Contribution (ICC).

A borrower may rehabilitate a defaulted Perkins Loan by making nine consecutive, on-time, monthly payments. A rehabilitated Perkins Loan is returned to regular repayment status. (See *Default Status and Perkins Eligibility* later in this chapter.)

A borrower may include his or her defaulted Perkins Loan in a Direct Consolidation Loan. The amount eligible for consolidation is the sum of the unpaid principal, accrued unpaid interest, late charges, and outstanding collection costs. A defaulted loan that is being repaid under a court order remains in default status until paid and is not eligible for consolidation.

Ceasing collections cites

Ceasing collections

34 CFR 674.47(g)

Account write-off

34 CFR 674.47(h)

Litigation

34 CFR 674.46

Compromise

34 CFR 674.33(e)

Collection costs waiver

34 CFR 674.47(d)

Consolidating defaulted Perkins Loans

A borrower with a defaulted Perkins Loan and an outstanding FFEL or Direct Loan can get information about obtaining a Direct Consolidation Loan by contacting the Direct Loan Consolidation Department at 1-800-557-7392 or by visiting the Direct Loan website: www.direct.ed.gov.

Writing off accounts

You may write off a defaulted account with a balance of less than **\$25** (including outstanding principal, accrued interest, collection costs, and late charges).

You may also write off a defaulted account with a balance of less than **\$50** (including outstanding principal, accrued interest, collection costs, and late charges) if, for a period of two years, you have billed the borrower as required by 34 CFR 674.43(a) and 674.47(h).

If you write off an account, the borrower is relieved of all payment obligations, and you must deduct the amount of the account from the Federal Perkins Loan fund. If you receive a payment from a borrower after you have written off the loan, you must deposit that payment into the fund.

LITIGATION

Elimination of defense of infancy

HEOA Section 486

Schools in the Perkins Loan Program are not subject to a defense raised by a borrower on the basis of a claim of infancy under state law. See General Provisions relating to student assistance.

Deceased student and family estate

The HEOA of 2008 provides that a deceased student, a deceased student's estate, or the estate of such student's family does not have to repay any federal student aid, including interest, collection costs, or other charges.

HEOA section 486 | HEA section 484A
Effective date: August 14, 2008

Litigation

34 CFR 674.46

Collection costs waiver

34 CFR 674.47(d)

If the collection procedures described in this section do not result in the repayment of a loan, the school must review the account for litigation once every two years. If all the conditions are met, the school must litigate. The conditions are

- ♦ the total amount owed, including outstanding principal, interest, collection costs, and late charges, on all the borrower's Perkins Loans at the school is more than \$500;
- ♦ the borrower can be located and served with process;
- ♦ the borrower either has enough assets attachable under state law to cover a major portion of the debt or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time (defining a "reasonable period of time" is left to the school);
- ♦ the borrower does not have a defense that will bar judgment for the school; and
- ♦ the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

Even if all the above conditions are not met, your school may still choose to sue a defaulted borrower. If the borrower has a partial defense that may bar judgment for the school, you must weigh the costs of litigation against the costs of recovery based on the amount of the enforceable portion of the debt. No federal or state statute of limitation can apply to enforcement actions to collect Perkins Loans.

Your school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. You are also required to try to recover all costs previously incurred in the collection of overdue payments if the borrower has not paid these collection costs; a percentage of these unrecovered costs may be charged to the fund as explained later in this chapter under *Billing and Collection Costs*.

When a school has filed suit to collect a defaulted Perkins Loan and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. A defaulted loan that is being repaid under court order remains in default status until paid and is not eligible for consolidation. After a judgment is satisfied on the defaulted loan, the student is again eligible for future awards under these programs if all other eligibility criteria are met.

DEFAULT STATUS AND PERKINS ELIGIBILITY

A borrower who is in default on an FSA loan is not eligible for any further FSA loans unless they have regained eligibility. (See *Volume 1* for guidance on how a student may regain eligibility). However, a borrower who satisfies any of the conditions that remove a Perkins Loan from his or her school's cohort default rate calculation becomes eligible for additional Perkins Loans only (see *FISAP Instruction Booklet*).

Default The failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement.

Regaining eligibility for federal student aid

To the extent that he or she is otherwise eligible, a borrower who is in default on a Perkins Loan may regain eligibility for federal student aid by making satisfactory repayment arrangements on his or her defaulted loan. (See also *Volume 1*.) For purposes of regaining eligibility for federal student aid, a borrower who is in default on a Perkins Loan can regain eligibility by making six on-time, consecutive, monthly payments on the defaulted loan. **A borrower may regain eligibility only once in this way.** After a borrower has made six on-time, consecutive, monthly payments on the defaulted loan the school must appropriately update the borrower's loan status code in the National Student Loan Data System. Note that a borrower who makes six payments in the course of rehabilitating a defaulted loan but does not seek additional Title IV aid will not be considered to have used the one time opportunity to regain eligibility. **Note that a borrower whose Perkins Loan is in default also can regain eligibility for federal student aid by consolidating his or her Perkins Loan.**

On Time A rehabilitation payment is on time if it is a full monthly payment, as determined by the school, and made within 20 days of the due date.

Involuntary Payments

The term "involuntarily" includes payments obtained by income tax offset, garnishment, income asset execution, or pursuant to a judgment.

Perkins Loan rehabilitation

Your school must establish a rehabilitation program and notify all borrowers with defaulted loans of the option to rehabilitate and the advantages of rehabilitation. A borrower may rehabilitate a defaulted Perkins Loan by making nine consecutive on-time **monthly** payments, **as determined by the school, each month for nine consecutive months and requesting rehabilitation.**

Borrowers may not rehabilitate loans on which the holder has obtained a judgment. However, your school may enter into an agreement with the borrower that provides the borrower with some of the benefits of rehabilitation. For example, your school could promise to vacate the current judgment and request the removal of the default from the borrower's credit report after the borrower makes nine consecutive payments and signs a new promissory note.

Rehabilitation of a Perkins Loan

34 CFR 674.39

The rehabilitation payments should be sufficient to satisfy the outstanding balance on the loan within a 10-year repayment period. A school may not establish a loan rehabilitation policy that requires defaulted Perkins Loan borrowers to pay the full outstanding balance of the loan within the nine-month rehabilitation period, if such payments would create a hardship for the borrower. In most cases, such a policy would require a borrower to make excessively high monthly payments, and would, in effect, deny the borrower access to a statutorily mandated benefit of the Perkins Loan Program.

Within 30 days of receiving the borrower's last on-time consecutive monthly payment, you must

- ♦ return the borrower to regular repayment status;
- ♦ treat the first of the nine consecutive payments as the first payment in a new 10-year repayment schedule; and
- ♦ instruct any credit bureau to which the default was reported to remove the default from the borrower's credit history.

After rehabilitating a defaulted loan and returning to regular repayment status, a borrower regains the benefits and privileges of the promissory note, including deferment and cancellation.

If a borrower chooses to rehabilitate a defaulted loan and then fails to make nine consecutive on-time payments, the rehabilitation is unsuccessful, but the borrower may still make further attempts to rehabilitate the defaulted loan. Also, if a borrower successfully rehabilitates a defaulted loan and maintains good standing on the loan, the borrower may continue to attempt to rehabilitate other defaulted Perkins loans. **However, if the borrower successfully rehabilitates a defaulted loan, but the loan later returns to default, the borrower may not attempt to rehabilitate that loan again or any other defaulted Perkins Loan.**

Loans with judgments

When a school has filed suit to collect a defaulted Perkins Loan and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. If the judgment is for less than the outstanding balance on the loan, the school may write off the portion of the loan not covered by the judgment. After a judgment is satisfied on the defaulted loan, the student is again eligible for aid from FSA programs if all other eligibility criteria are met. **However, if a borrower has previously satisfied a defaulted student loan involuntarily (for instance, through wage garnishment), you should consider this as evidence of unwillingness to repay and should not approve further loan assistance to the borrower.**



Previously defaulted Perkins Loans discharged for school closure

A Perkins Loan made on or after January 1, 1986, may be discharged if the borrower is unable to complete his or her program of study due to the closure of the school that made the loan. A defaulted borrower whose loan is discharged under this closed school provision is eligible for additional federal student aid, provided that he or she meets all other eligibility criteria. (Schools that close must assign all Perkins Loans to the Department.)

Closed school discharge

34 CFR 674.33(g)

PERKINS COHORT DEFAULT RATES (CDR)

Your school's cohort default rate is calculated for a particular year based on information you report in Part 3, Sections D and E, of the FISAP. For detailed information on how your school's cohort default rate is determined, see Part III of the Draft FISAP Instruction Booklet available under "Publications" on the IFAP website.

For detailed information on how your school's cohort default rate is determined, see Part III of the Draft FISAP Instructions Booklet available under "Publications" on the IFAP website.

Perkins CDR

34 CFR 674.5

Penalty for high CDR

34 CFR 674.5(a)

Calculation

34 CFR 674.5(b)

Loans included in the cohort default rate

34 CFR 674.5(c)(1) & (2)

Loans not included in cohort default rate

34 CFR 674.5(c)(3)

How the Perkins Loan default rate is calculated

For any award year in which *30 or more borrowers enter repayment*, the cohort default rate is the percentage of those current and former students who enter repayment *in that award year* on loans received for attendance at that school and *who default before the end of the following award year*.

For any award year in which *fewer than 30 current and former students at the school enter repayment* on a loan received at the school, the cohort default rate is the percentage of those current and former students who entered repayment on loans received for attendance at that school in any of the *three most recent award years* and who defaulted on those loans before the end of the award year immediately following the year in which they entered repayment.

For purposes of the cohort default rate, a loan enters repayment only once in its life. This repayment begins the day after the end of the initial grace period or the day that the borrower waives his or her initial grace period.

A borrower is included in determining the school's cohort default rate if the borrower's default has persisted for at least 240 consecutive days for a loan repayable monthly or 270 consecutive days for a loan repayable quarterly.

CDR for Multiple Locations or Change of Ownership

If a school has a branch or branches or has an additional location or locations, the school's cohort default rate applies to all branches and locations of the school as they exist on the first day of the award year for which the rate is calculated. The cohort default rate applies to all branches/locations of the school from the date the Department notifies the school of the rate until the Department notifies the school that the rate no longer applies.

For more information about the effect of changes of ownership and the treatment of multiple locations in the Perkins rate calculation, see 34 CFR 674.5(d).

Perkins Cohort Default Rates Listing

The *Federal Perkins Loan Program Status of Default*, known as the Orange Book, lists the cohort default rates for each school that participates in the Perkins program. See the “Publications” area on the IFAP website.

Perkins Loans that are not treated as defaults

The following loans are not treated as defaults when reporting borrower status on Part III of the FISAP:

- ◆ loans on which borrowers have made six consecutive monthly payments;
- ◆ loans on which borrowers have “voluntarily” made all payments currently due;
- ◆ loans that borrowers have repaid in full;
- ◆ loans for which borrowers have received deferments or forbearance based on conditions that began prior to loans becoming 240/270 days past due;
- ◆ loans that have been rehabilitated;
- ◆ loans repaid in full under a compromise repayment agreement in accordance with 674.33(e);
- ◆ loans that have been discharged due to death or total and permanent disability, bankruptcy, or a school closing;
- ◆ loans that have been assigned to the ED because of the total and permanent disability of the borrower.

Rules for calculating the number of days in default

For purposes of reporting on Part III of the FISAP, a school should use the following rules to calculate the number of days a loan has been in default:

- ◆ The 240/270 consecutive days in default is determined by calculating the “age” of the account (that is, the number of consecutive days the oldest dollar is past due).
- ◆ A payment that a borrower makes on a past-due loan is applied to the oldest dollars first, effectively reducing the past-due status.
- ◆ A loan on which a borrower is past due and on which the borrower makes an occasional payment but never becomes current could be counted as a defaulted loan for the cohort default rate calculation despite the occasional payments. Because the delinquency is not being cured, the oldest past-due dollar could eventually become 240 days past due, making the loan count in the default rate calculation. However, if the borrower makes enough occasional payments to prevent the oldest past-due dollar from becoming 240 days old, the loan would not be counted as being in default.

Adjusting past-due status example

Marty's oldest dollar is 240 days past due. He files a request for a deferment based on the fact that he is attending school and the enrollment period began on the date that the loan became 90 days past due. The past-due status of the loan is reduced to 90 days, and the loan is given a deferment status. This loan is treated as if the 240-day threshold had never been reached. Therefore, it would not be counted in the school's cohort default rate.

- ♦ An exception to the 240/270-day threshold will be granted in a case where a borrower (1) would have qualified for a deferment for a period beginning prior to the loan hitting the 240-270-day threshold and (2) failed to file a request for the deferment in a timely manner. For such a borrower, the loan's past-due status would be adjusted to reflect the deferment period beginning date. However, the borrower would need to pay any past-due amounts that were due prior to the beginning of the authorized deferment periods, if the deferment period beginning date does not eliminate the loan's entire delinquency.

Penalty for high CDR

34 CFR 674.5(a)

Penalties for high Perkins default rates

If the school's cohort default rate is

- ♦ 25% or higher, and Congress appropriates funds, the school's FCC will be reduced to zero.
- ♦ 50% or higher for the three most recent years, the school is ineligible to participate in the Federal Perkins Loan Program and must liquidate its loan portfolio.

A school may appeal a determination of ineligibility if the appeal is based on an inaccurate calculation of its cohort default rate or a low number of borrowers entering repayment. A school appeals a determination of ineligibility based on an inaccurate calculation by adjusting the cohort default rate data on the FISAP.

BILLING AND COLLECTION COSTS

Your school must charge the borrower for reasonable collection costs associated with past-due payments, if your school opts to charge them (not routine billing costs, which are included in the administrative cost allowance [ACA]), and *collection* costs for address searches, use of contractors for collection of the loan, litigation, and/or bankruptcy proceedings.

If your school cannot recover billing and collection costs from the borrower, you may charge the costs to the fund, provided the costs fall within the specifications described in the following paragraphs. (Collection costs are included in the ACA, but if collection costs exceed the ACA, you must report the additional costs in the separate collection costs category on the FISAP.) Note that a school may not request a Perkins ACA if it has not made any Perkins loans during the year.

Billing and collection

Billing and collection firms

34 CFR 674.48

Assessing costs

34 CFR 674.45(e)

Charging costs to the fund

34 CFR 674.47

Perkins Loans and ACA

34 CFR 674.37(a)

Reasonable collection costs

34 CFR 674.45(e)(3)

For loans referred to a collection agency on or after July 1, 2008, collection costs charged the borrower may not exceed

- first collection effort—30% of the principal, interest, and late charges collected;
- second and subsequent collection efforts—40% of the principal, interest, and late charges collected;
- for collection efforts resulting from litigation, 40% of principal, interest, and late charges collected, plus court costs.

Collection Costs

34 CFR 674.45
34 CFR 30.60

Collection costs waiver

34 CFR 674.47(d)

Collection Costs for Loans Made from 1981 through 1986

For loans made from 1981 through 1986, many promissory notes contain a limitation on the amount of costs that can be recovered from the borrower (25% of the outstanding principal and interest due on the loan). As this provision has not been applicable since the beginning of the 1987–1988 award year, if these borrowers ask for new advances, the Department strongly encourages schools to issue new promissory notes without this provision and to require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for all collection costs on all of his or her outstanding loans borrowed under this program. (However, the advances made prior to the signing of the new note do not qualify for new deferment and cancellation benefits.)

The only *billing* costs a school may charge the fund are the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower. Even if the amount recovered from the borrower does not suffice to pay the amount of the past-due payments and the penalty or late charges, the school may charge the fund only for the unpaid portion of the actual cost of the calls.

A school may waive late charges for a borrower who repays an amount past due. Before proceeding with litigation, a school may waive the percentage of collection costs applicable to the amount then past due in a loan equal to the percentage of that past due balance that the borrower pays within 30 days of the date the borrower and school enter into a written repayment arrangement.

The following *collection* costs may be charged to the Perkins Loan Fund if the costs are *waived* or *not paid by the borrower*:

Collection costs waived. If your school waives collection costs as incentive for repayment, the amount waived may be charged to the Fund.

Cost of a successful address search. You may charge to the Fund a reasonable amount for the cost of a successful address search if you used a commercial skip-tracing service or employed your school's personnel to locate the borrower using comparable methods. (Defining a reasonable amount is left to the school.)

Cost of reporting defaulted loans to credit bureaus. You may charge to the Fund the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account, and responding to any inquiry from a credit bureau about the status of a loan.

Costs of first and second collection efforts. You may charge to the Fund collection costs not paid by the borrower if they do not exceed—for first collection efforts—30% of the total principal, interest, and late charges collected and—for second collection efforts—40% of the principal, interest, and late charges collected. The school must reimburse the Fund for collection costs initially charged to the Fund but subsequently paid by the borrower.

Collection costs resulting from rehabilitation. Collection costs charged to the borrower on a rehabilitated loan may not exceed 24% of the unpaid principal and accrued interest as of the date following application of the ninth payment. Collection costs are not restricted to 24% in the event that the borrower defaults on the rehabilitated loan.

Costs of firm performing both collection and litigation services. If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the Fund may not exceed the sum of **40%** of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.

Collection costs resulting from litigation, including attorney's fees. Collection costs resulting from litigation, including attorney's fees, may be charged to the Fund if not paid by the borrower but must not exceed the sum of

- ♦ court costs specified in 28 U.S.C. 1920;
- ♦ other costs incurred in bankruptcy proceedings in taking actions required or authorized under 34 CFR 674.49;
- ♦ costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- ♦ 40% of the total amount recovered from the borrower in any other proceeding.

Due diligence activities involving fixed costs (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the Fund whether or not the actions are successful. Other activities, such as address searches, collection, and litigation (other than bankruptcy), are typically performed on a *contingent-fee* basis. **If these activities are *unsuccessful*, there are no costs charged to the school and therefore no costs may be charged to the Fund.** If these activities are *successful*, you may charge the associated allowable costs to the Fund.

TIP

Assessing and documenting costs

You may charge either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency.

Your school must assess all reasonable collection costs against the borrower despite any provisions of state law that would conflict with the above provisions.

You must document the basis for the costs assessed. For audit purposes, a school must keep documentation supporting costs, including telephone bills and receipts from collection firms.

ASSIGNING DEFAULTED PERKINS LOANS

Assignment form and procedures

34 CFR 674.50

Electronic Announcements January 8, 2016.

Federal Perkins Loans assigned to the Department are now being serviced by ECSI Federal Perkins Loan Servicer in Warrendale, PA (NSLDS Name—DEPT OF ED/ECSI Federal Perkins Servicer, ED Servicer Code 529.

If a school has a question about a loan that has been submitted for assignment, it should contact the Client Support Team at ECSI. Contact information for ECSI can be found on the Loan Servicing Centers for Schools Contact Information page at

ifap.ed.gov/ifap/helpContactInformation/DetailedList.jsp?lsc=1

Federal interest on accelerated loans

34 CFR 674.17

Reporting “Date(s) of First Disbursement” on Loan Manifest

You must report the date each assigned loan was disbursed (attached to the Institutional Certification page of the Perkins Assignment form). The dates listed must match the date of first disbursement initially reported by your school to NSLDS. If multiple loans were combined into one loan, you list the date of first disbursement for the first loan in the combination. If a student received multiple loans reported separately, you list the date of first disbursement for each loan. For more details, see **Electronic Announcement 2013-04-19**.

A school may assign Perkins Loans to the Department at any time during the program year. When a school assigns a loan to the Department, it is transferring all rights and responsibilities for collection to the United States government. A school relinquishes its rights to any share any of funds collected after a Perkins Loan is assigned to and accepted by the Department.

A school may assign defaulted Perkins loans to the Department if

- ♦ it has not been able to collect despite having followed due diligence procedures (including at least a first level of collection);
- ♦ the total amount of the borrower’s account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is \$25 or more; and
- ♦ the loan has been accelerated.

You may *not* assign a loan to the Department under the voluntary assignment procedures if

- ♦ the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the student loan obligation is nondischargeable and has entered a judgment against the borrower or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;
- ♦ your school has sued the borrower (unless the judgment has been entered and assigned to the United States); or
- ♦ the loan has been discharged because the borrower has died.

A school may be required to assign a Perkins Loan if it has knowingly failed to maintain an acceptable collection record with regard to the loan or chooses to stop servicing and collecting its Perkins Loans.

Non-liquidating schools

The Department recognizes that a school may have exhausted all of its available collection options on some of its defaulted Perkins Loans and encourages schools to assign these loans to the Department so additional steps can be taken to recover the loan funds. The Department has collection tools that are not available to schools, such as administrative wage garnishment, Treasury offset, and litigation by the Department of Justice.

Liquidating schools

When a school liquidates its Perkins portfolio, it must assign all loans with outstanding balances to the Department for collection whether defaulted or non-defaulted.

Loans are assigned without recompense

All loans a school assigns to the Department are assigned without recompense. The school is relieved of incurring additional expenses in attempting to collect on the loan. All rights, authorities and privileges associated with the loan are transferred to the Department, and the Department will not reimburse the school's Perkins Fund for any collections made on the assigned loans. Assignment of defaulted loans does not affect the calculation of the school's Perkins Loan cohort default rate.

Required documentation

A school *may be required* to submit the following documents to the Department for any loan it proposes to assign

- ♦ one original and one photocopy of the assignment form;
- ♦ the original promissory note or a certified copy of the original note;
- ♦ a copy of the repayment schedule and a complete statement of the payment history;
- ♦ copies of all approved requests for deferment and cancellation;
- ♦ a copy of the notice to the borrower of the effective date of acceleration and the total amount due on the loan;
- ♦ documentation that the school has withdrawn the loan from any firm that it employed for address search, billing, collection, or litigation services and has notified that firm to cease collection activity on the loans;
- ♦ copies of all pleadings filed or received by the school on behalf of a borrower who has filed a petition in bankruptcy and whose loan obligation is determined to be nondischargeable;
- ♦ a certified copy of any judgment order entered on the loan.

If you assign loans made under the Perkins MPN, you must maintain disbursement records that document the principal amount loaned until the loan is paid off or otherwise satisfied. You may include disbursement records with the assignment submission. For more details on Perkins Loan Portfolio Liquidation and Assignment, **see the *Federal Perkins Loan Program Assignment and Liquidation Guide* available at <http://ifap.ed.gov/cbpmaterials/attachmentsPerkinsAssignmentandLiquidationGuide.pdf>**

Terms of assignment

If the Department accepts the assignment of a loan, it will give the school written notice to that effect. *By accepting the assignment, the Department acquires all rights, title, and interest in the loan.* You must endorse and forward to the Department any subsequent payment(s) the borrower may make.

If the Department later determines an assigned loan to be unenforceable because of an act or omission on the part of your school or its agent, your school may have to compensate the Perkins Loan Fund in the amount of the unenforceable portion of the outstanding balance. Once the fund is reimbursed, the Department transfers all rights to the loan back to the school.

A borrower whose loan has been assigned to the United States for collection continues to be in default on the loan and is ineligible for FSA funds until the borrower provides confirmation from the Department that he or she has made satisfactory arrangements to repay the loan.

Schools that do not utilize PLAS (use a paper process) will receive an official notification of acceptance document identified as “Perkins Loan Database Report” via email. This report provides borrower identification information, school identification information, and outstanding principal, interest and fees accepted for assignment by the Department. This is the official acceptance notice and should be retained in the school’s records.

Status of Assignment

Loans Accepted

Official Notification of Acceptance: When manual paper assignments are accepted, the institution will receive a document identified as “Perkins Loan Database Report” via email. This report provides borrower identification information, school identification information, and outstanding principal, interest and fees accepted for assignment by the Department. This is the official acceptance notice and should be retained in the school’s records.

Hard copies of the acceptance notices (Perkins Loan Database Reports) may be sent to the school’s address provided in the school’s program participation agreement. The institution should ensure that its mail distribution staff becomes familiar with these notices and the offices to which they should be distributed.

Note: Schools that use PLAS for electronic submission can access information about accepted and rejected assignments through PLAS. These reports can be viewed on-line or printed from PLAS.

Loans Rejected

For Perkins Loans rejected for assignment, the Department will provide the school with the reason(s) for rejection; if the school can resolve the issue(s) it may resubmit the loan for assignment. For most problems, this process may enable a school to correct the deficiencies and resubmit the rejected loans. The Department will work with the school to assist in resolving issues.

ASSIGNMENT UNDER E-SIGNED OR PERKINS MPN

If you assign loans that were made under an electronically signed promissory note, you must cooperate with the Department in all activities necessary to enforce the loan.

You may be asked to provide an affidavit or certification regarding the creation and maintenance of electronic records of the loan. This affidavit or certification must establish that the records are created and maintained in a form appropriate to ensure admissibility of the loan records in a legal proceeding.

The affidavit or certification must

- ♦ describe the steps followed by the borrower to execute the promissory note;
- ♦ include copies of screen shots that would have appeared to the borrower when the borrower signed the note electronically;
- ♦ describe field edits and other security measures used to ensure data integrity;
- ♦ describe how the promissory note has been preserved to ensure it has not been altered;
- ♦ include documentation supporting the school's authentication and electronic signature process; and
- ♦ provide any other documentary and technical evidence requested by the Department.

The affidavit or certification may be executed in a single record for multiple loans provided that this record is reliably associated with the specific loans to which it pertains.

An authorized official or employee of the school may have to testify to ensure admission of the electronic records of the loan or loans in the litigation or legal proceeding to enforce the loan or loans.

Your school's most recent audit must assess how well your school's e-sign authentication process meets the Department's "Standards for Electronic Signatures in Electronic Student Loan Transactions" (as specified in DCL GEN-01-06).

SUPPORTING DOCUMENTATION FOR ASSIGNMENT OF PERKINS LOANS

In an effort to streamline the Federal Perkins Loan assignment process for institutions, Federal Student Aid has developed the charts on the following pages in which we provide information about the necessary documentation that must be included when institutions assign Federal Perkins Loans to the Department.

The chart is categorized by loan status with three columns of acceptable supporting documentation requirements: (1) required documentation, (2) alternatives to required documentation, and (3) extenuating circumstances documentation. We hope that you find this chart helpful as you prepare to assign loans to the Department.

As a reminder, institutions were informed in an Electronic Announcement, Perkins Loan Assignment System—System Availability and User Access Process dated September 21, 2015, that the automated Perkins Loan Assignment System (PLAS) was available for use.

Additional information on the procedures for assigning Perkins loans to the Department is provided in the Federal Perkins Loan Program Assignment and Liquidation Guide available at

<http://ifap.ed.gov/cbpmaterials/attachmentsPerkinsAssignmentandLiquidationGuide.pdf>

Reconciling NSLDS and School Data

The amount of loans and number of borrowers in NSLDS must match what is reported by the school on its final FISAP.

For the purposes of Perkins liquidation and closeout, schools must ensure that all outstanding Perkins Loans are properly accounted for and updated in NSLDS

The Department suggests schools request a reconciliation report from NSLDS to ensure its records are consistent with the NSLDS data, and to reconcile any discrepancies.

TIP

Liquidation and Assignment Information

Complete information about Federal Perkins Loan Portfolio liquidation and assignment is now available in the *Federal Perkins Loan Program Assignment and Liquidation Guide* on the Campus-Based Processing Information Page on the Information for Financial Aid Professionals (IFAP) Website.

From the IFAP Website's home page, under *Information Pages* select *Campus-Based Programs*. Perkins Liquidation and Assignment information is highlighted in an orange box on the right side of the page, and you can find the *Federal Perkins Loan Program Assignment and Liquidation Guide* there.

The posted information includes the following:

- Perkins Loan Assignment and Liquidation Guide
- Returning Perkins Funds
- Perkins Assignment Form Instructions
- Perkins Assignment Form—Institutional Certification
- Perkins Assignment Form—Borrower and Loan Info
- Administrative Responsibilities and Reporting Requirements
- Perkins Loan Assignment System (PLAS)

Each time we make updates to the documents, we will inform the community through an electronic announcement on the IFAP Website.

Contact Information

If you have questions about this announcement, contact the Campus-Based Call Center at 877-801-7168. Customer service representatives are available Monday through Friday from 8:00 a.m. until 8:00 p.m. (ET). You may also email cbfob@ed.gov.

Retaining Access to the Nonfederal Portion of Collections

Schools may choose whether to assign all or a portion of their Perkins Loan portfolios to the Department. Schools that continue to manage their outstanding Perkins loans will probably have to return the Federal portion of future payments received, but they will be able to retain the nonfederal portion of those collections.

Schools will lose access to the nonfederal portion of those Perkins Loans they assign to the Department.

Supporting Documentation for Assignment of Perkins Loans—March 2016

Status of the Loan	Required Documents	Alternative Required Documents (Only if Original Promissory Note or Master Promissory Note Does Not Exist)	Extenuating Circumstances Documentation
In—School or Grace	<ul style="list-style-type: none"> Original Promissory Note or Master Promissory Note with Disbursement Records 	<ul style="list-style-type: none"> Certified True Copy of Front and Back of Promissory Note or Master Promissory Note with Disbursement Records 	<ul style="list-style-type: none"> Approval letter from Federal Student Aid for other acceptable alternative documentation
In Repayment—No Default	<ul style="list-style-type: none"> Original Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Certified True Copy of Front and Back of Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Approval letter from Federal Student Aid for other acceptable alternative documentation
In Repayment—Default	<ul style="list-style-type: none"> Original Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Certified True Copy of Front and Back of Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Approval letter from Federal Student Aid for other acceptable alternative documentation
School Has Not Initiated Legal Action Against the Borrower	<ul style="list-style-type: none"> Original Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Certified True Copy of Front and Back of Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Approval letter from Federal Student Aid for other acceptable alternative documentation
<p align="center">Notes</p> <p><i>Disbursement record</i> is the evidence supporting each disbursement and would include the date and amount of every disbursement.</p> <p><i>Repayment record</i> is an accounting record or listing of each payment received for the Perkins Loan and would include any deferrals or forbearance periods. If no payments have been received for the Perkins Loan this information would need to be included.</p>			

Supporting Documentation for Assignment of Perkins Loans—March 2016

Status of the Loan	Required Documents	Alternative Required Documents (Only if Original Promissory Note or Master Promissory Note Does Not Exist)	Extenuating Circumstances Documentation
In Repayment—Default Judgment Initiated—Decision Not Yet Rendered Assignment by a School Not Liquidating or Closing	Loan cannot be assigned until judgment is rendered.		
In Repayment—Default Judgment Initiated—Decision Not Yet Rendered Assignment by a School Liquidating or Closing	<ul style="list-style-type: none"> At the specific request of the Department, documentation that the school requested the court to end the judgment proceedings or request the court to name the Department as the creditor All documents related to the school's filing the request for judgment Original Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> At the specific request of the Department, documentation that the school requested the court to end the judgment proceedings or request the court to name the Department as the creditor All documents related to the school's filing the request for judgment Certified True Copy of Front and Back of Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> At the specific request of the Department, documentation that the school requested the court to end the judgment proceedings or request the court to name the Department as the creditor All documents related to the school's filing the request for judgment Approval letter from Federal Student Aid for other acceptable alternative documentation

Status of the Loan	Required Documents	Alternative Required Documents (Only if Original Promissory Note or Master Promissory Note Does Not Exist)	Extenuating Circumstances Documentation
In Repayment—Default Judgment Rendered Assignment Form Amount and the Judgment Amount Match	<ul style="list-style-type: none"> Original or certified true copy of the judgment Original Promissory Note or Master Promissory Note Signed statement providing amount, interest rate, and expiration date if this information does not appear on the judgment documents Repayment records made on the judgment Repayment records on all payments made prior to judgment (if available) 	<ul style="list-style-type: none"> Original or certified true copy of the judgment Certified True Copy of Front and Back of Promissory Note Signed statement providing amount, interest rate, and expiration date if this information does not appear on the judgment documents Repayment records made on the judgment Repayment records on all payments made prior to judgment (if available) 	<ul style="list-style-type: none"> Original or certified true copy of the judgment Signed statement providing amount, interest rate, and expiration date if this information does not appear on the judgment documents Approval letter from Federal Student Aid for other acceptable alternative documentation

Supporting Documentation for Assignment of Perkins Loans —March 2016

Status of the Loan	Required Documents	Alternative Required Documents (Only if Original Promissory Note or Master Promissory Note Does Not Exist)	Extenuating Circumstances Documentation
<p>In Repayment —Default Judgment Rendered</p> <p>Assignment Form Amount and Judgment Amount Do Not Match</p>	<ul style="list-style-type: none"> School must work with FSA to determine amount that will be assigned Original Promissory Note or Master Promissory Note Original or certified true copy of the judgment Signed statement providing amount, interest rate, and expiration date if this information does not appear on the judgment documents Repayment records made on the judgment Repayment records on all payments made prior to judgment (if available) 	<ul style="list-style-type: none"> School must work with FSA to determine amount that will be assigned Certified True Copy of Front and Back of Promissory Note Original or certified true copy of the judgment Signed statement providing amount, interest rate, and expiration date if this information does not appear on the judgment documents Repayment records made on the judgment Repayment records on all payments made prior to judgment (if available) 	<ul style="list-style-type: none"> School must work with FSA to determine amount that will be assigned Original or certified true copy of the judgment Signed statement providing amount, interest rate, and expiration date if this information does not appear on the judgment documents Repayment records made on the judgment Repayment records on all payments made prior to judgment (if available) Approval letter from Federal Student Aid for other acceptable alternative documentation
<p>Bankruptcy Initiated — Decision Not Yet Rendered</p> <p>Assignment by a School Not Liquidating or Closing</p> <p>(Applies to both non-defaulted and defaulted loans)</p>	<p>Loan cannot be assigned until court rules on the bankruptcy petition.</p>		

Supporting Documentation for Assignment of Perkins Loans— March 2016

Status of the Loan	Required Documents	Alternative Required Documents (Only if Original Promissory Note or Master Promissory Note Does Not Exist)	Extenuating Circumstances Documentation
Bankruptcy Initiated—Decision Not Yet Rendered Assignment by a School Liquidating or Closing (Applies to both non-defaulted and defaulted loans)	<ul style="list-style-type: none"> Upon the specific request of the Department, documentation that the school requested the bankruptcy court to name the Department as the creditor All documents received or sent related to the bankruptcy filing Original Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Upon the specific request of the Department, documentation that the school requested the bankruptcy court to name the Department as the creditor All documents received or sent related to the bankruptcy filing Certified True Copy of Front and Back of Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> Upon the specific request of the Department, documentation that the school requested the bankruptcy court to name the Department as the creditor All documents received or sent related to the bankruptcy filing Approval letter from Federal Student Aid for other acceptable alternative documentation
Bankruptcy Initiated—Final Ruling Loan is not Discharged (Applies to both non-defaulted and defaulted loans)	<ul style="list-style-type: none"> All documents received or sent related to the bankruptcy filing, including court's determination Original Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> All documents received or sent related to the bankruptcy filing, including court's determination Certified True Copy of Front and Back of Promissory Note or Master Promissory Note with Disbursement Records Repayment Records 	<ul style="list-style-type: none"> All documents received or sent related to the bankruptcy filing, including court's determination Approval letter from Federal Student Aid for other acceptable alternative documentation

Using Billing and Collection Firms

Your school may use a contractor for billing or collection, but it is still responsible for complying with due diligence regulations regarding those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about cancelling or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

If you use a billing service, you may not use a collection firm that owns or controls the billing service or is owned or controlled by the billing service. In addition, you may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Account protection: minimum bond/insurance amounts

A school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service.

At least once a year, the school must review the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

A school using a law firm to collect must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

If you **don't** authorize your collection firm to deduct its fees from borrowers' payments, the firm must be bonded or insured for at least the amount that you expect to be repaid over a two-month period on the assigned accounts.

If you **do** authorize your collection firm to deduct its fees from borrowers' payments, you must ensure that

- if the amount you expect to be repaid over a two-month period is **less than \$100,000**—the collection firm is bonded or insured for the lesser of (a) 10 times the amount the school expects to be repaid over a two-month period on assigned accounts; or (b) the amount the firm expects to collect in a two-month period on **all** accounts it has in its portfolio (not just the school's account).
- if the amount you expect to be repaid in a two-month period is **\$100,000 or more**—the collection firm has a fidelity bond or comparable insurance **that names your school as the beneficiary** and is bonded or insured for an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period.

Sources of Information on the Perkins Loan Program Perkins Loan Assignment Process and Other Financial Aid

You can find detailed treatment of *Federal Perkins Loan Program Assignment Procedures* at

ifap.ed.gov/eannouncements/033016FedPerkinsLoanAssignLiquidGuideAvailOnIFAP.html

Questions regarding the assignment process as it pertains to the rest of the student financial aid award process or questions concerning the management of student loans not assigned to the Department should be directed either in writing or by phone to the School Participation Team serving your region.

Federal Perkins Loan Assignment Procedures

Questions pertaining to the status of your assignment submissions, or the correction of pending submissions, may be directed to

Written inquiries

ECSI Federal Perkins Loan Servicer
100 Global View Drive, Suite 800
Warrendale, PA 15086

ECSI can also be contacted at

Phone (for assignment help) 844-301-2620

Fax: 412-490-7498

Email: Clientsupport@efpls.com

Office Hours: 8:00 a.m.–8:00 p.m. (ET), Monday through Friday.

Information about Assignments Previously submitted

For assignment verification of accounts submitted more than 60 days previously, please email **productionprocessing@efpls.com**. In order to verify the submission, the email must include the student(s) name(s) and Social Security Number(s) in an encrypted file.

All inquiries must include the school's Name and OPEID.

As previously explained, missing or defective promissory notes or missing or incomplete bankruptcy or judgment information require formal approval by an appropriate Department official.

Therefore, all such explanations should be prepared in writing, with the following signature block provided:

**Approved/Not Approved _____ Assignments Specialist Operation Services,
Processing Division Perkins Loan Assignments**

Sources of Information on the Perkins Loan Program

Perkins Loan Assignment Process and Other Financial Aid (continued)

All such explanations must reference the specific account(s) affected by the documentation omission or irregular nature. The explanatory letter should then be sent to **PerkinsLoanAssignments@ed.gov**.

A returned approving email will constitute formal approval. Do not contact the assignments processing center with such inquiries.

Payments from Borrowers Received after Assignment

Payments from a borrower received by a school or its servicer after the borrower's account has been submitted to the Department for assignment and accepted by the Department should be forwarded, as soon as possible, to:

**U.S. Department of Education
ECSI Federal Perkins Loan Servicer
P.O. Box 105765
Atlanta, GA 30348-5765**

Each payment submission must clearly identify the borrower's full name, Social Security number, and the type of loan to which the payment is to be applied.

School Participation Teams

You can find contact information for the regional offices of the School Participation Division at **ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?contactname=School%20Participation%20Division**

Closed School Procedures

Questions concerning closed school procedures should be directed to the appropriate School Participation Team.

Discrepancies Between School Data and Department Data

The Processing Division, Perkins Loan Assignments, should be contacted to resolve any discrepancies between institutional records and those of the Department pertaining to accounts that have already been assigned to the Department and accepted. This includes corrections to acceptance notices, bankruptcy notices, and any other general information on accepted accounts that an institution wishes to forward.

Sources of Information on the Perkins Loan Program
Perkins Loan Assignment Process and Other Financial Aid (continued)
Issues with Specific Assignments

Questions pertaining to the status of your assignment submissions, or pertaining to the correction of pending submissions, may be directed to ECSI Federal Perkins Loan Servicer at **866-313-4130** or by emailing **clientsupport@efpls.com**.

More specific questions pertaining to the procedures for assignment of accounts set forth in this letter, or pertaining to the status of your assignment submissions, or pertaining to the correction of rejected submissions, can be directed to the Department's Processing Division at **415-486-5655** or by emailing **PerkinsLoanAssignments@ed.gov**. If you contact the Processing Division, please be advised that you will be instructed to leave a detailed message regarding your assignment submission. Due to periods of high call volume, contacting the Processing Division via **PerkinsLoanAssignments@ed.gov** may expedite a faster response.

Written inquiries should be mailed to

Federal Student Aid U.S. Department of Education
Operation Services, Processing Division
Perkins Loan Assignments
50 Beale Street, Suite 8601
San Francisco, CA 94105-1813

Institutions wishing to confirm the *paid-in-full status* for borrowers requesting transcripts should contact the Client Support Team at ECSI.

FISAP

For questions about the FISAP form, contact the Campus-Based Call Center at **877 801-7168** or by email at **cbfob@ed.gov**.

Perkins Loan Program Liquidation

For questions about Perkins Loan Program Liquidation, contact the Campus-Based Call Center at

877-801-7168

Perkins Loan Servicer Contact Information for Borrowers

Borrower Payments should be mailed to

Department of Education
ECSI Federal Perkins Loan Servicer
P.O. Box 105765
Atlanta, GA 30348-5765

The Borrower Customer Service telephone number is

866 313-3797

Sources of Information on the Perkins Loan Program

Perkins Loan Assignment Process and Other Financial Aid (continued)

Borrower Correspondence should be mailed to

**U.S. Department of Education
ECSE Federal Perkins Loan Servicer
P.O. Box 1079
Wexford, PA 15090**

Total and Permanent Disability Assignments

For detailed information about Total and Permanent Disability assignments for Perkins Loans, schools should refer to Perkins Total and Permanent Disability Discharge Assignment Procedures at

ifap.ed.gov/eannouncements/attachments/PerkinsTPDDischargeAssignmentProceduresAttach.pdf.

All Total and Permanent Disability assignments should be sent to

**Nelnet Total and Permanent Disability Servicer
U.S. Department of Education
121 South 13th Street, Suite 201
Lincoln, NE 68508**

The phone number for the Department's TPD Servicer is

888-303-7818